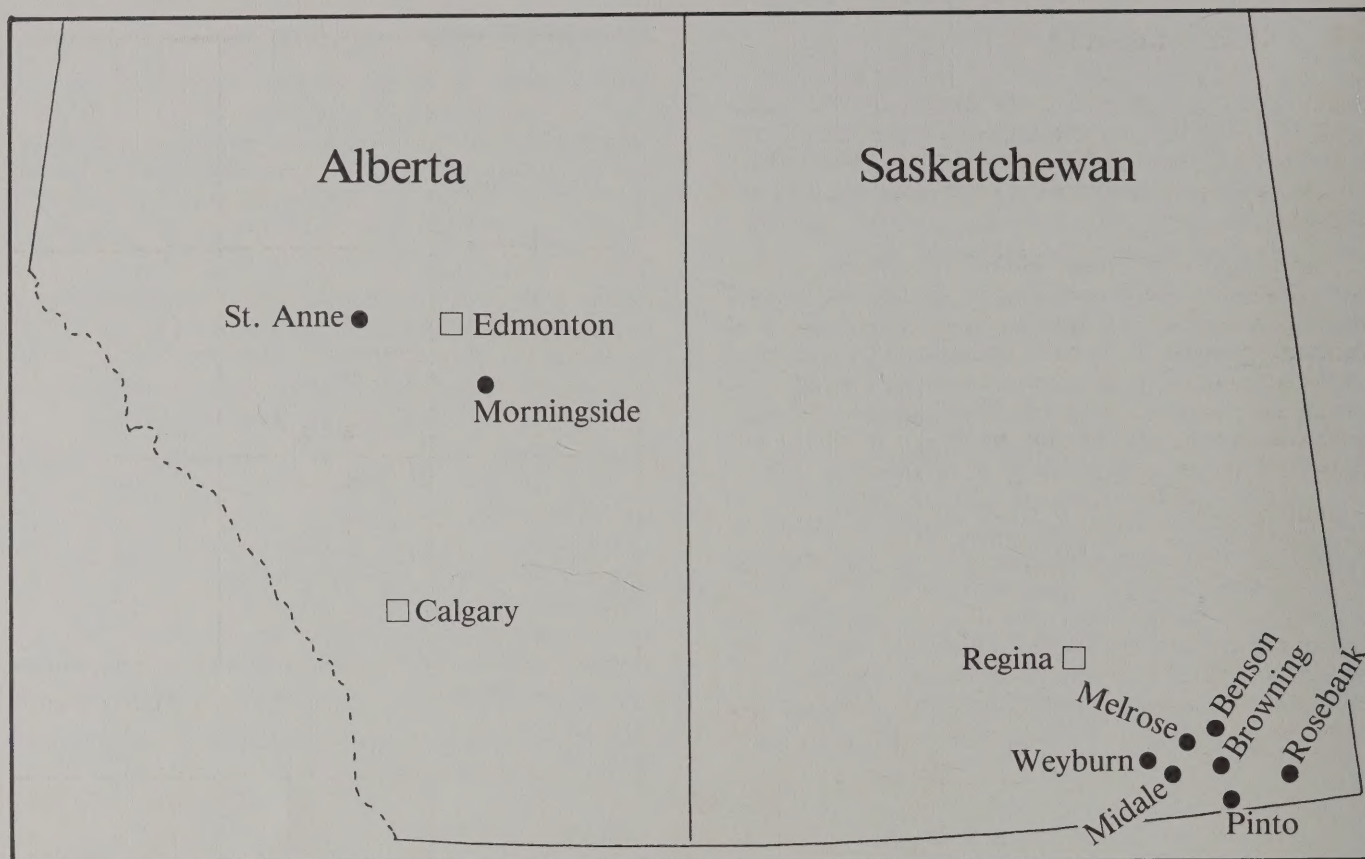


BRANA

OIL & GAS LTD.

1983
ANNUAL REPORT

Exploration Activity



1983 DRILLING RESULTS

	Gross Wells	Gross Oil Wells	Gross Gas Wells	Gross Suspended & D & A	Brana Net W.I. (%)
ALBERTA					
St. Anne	10	6	2 gas & oil	2	2.8
Morningside	6	4	2	—	1.7
SOUTHEAST SASKATCHEWAN					
Rosebank	1	1	—	—	3.2
Browning	1	1	—	—	8.0
Melrose	1	1	—	—	4.0
Benson West	1	1	—	—	8.0
Creelman	1	—	—	1	8.0
Goodwater	1	—	—	1	8.0
TOTAL	22	14	4	4	

Brana participated in the drilling of twenty-two gross wells in Canada during 1983, with the results as shown on the table above.

Reference Price (NORP). In addition, the Saskatchewan production also receives a twelve month royalty holiday.

The Company did not participate in any projects in the United States.

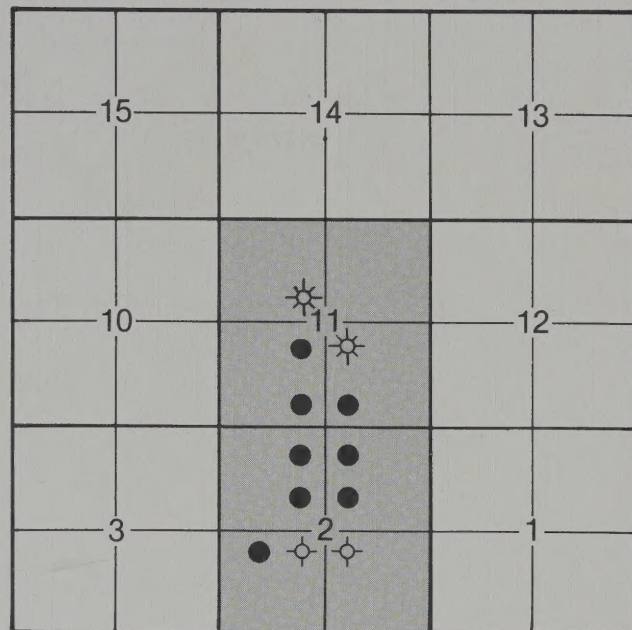
ST. ANNE, ALBERTA

Brana acquired interests of 5.0% BPO/3.0% APO and 5.0% BPO/2.5% APO respectively in the wells 11-2 and 3-11-55-5 W5M for \$105,000 in November 1982. Payout on these wells is not expected to occur until at least early 1986.

Commencing in September 1983, 10 development wells were drilled on the property and a \$1,000,000 central treating facility and storage battery was installed. These facilities, planned to be fully operational by February 1984, are expected to generate additional revenue from the custom processing of fluids, and also reduce the operating costs for the field. Outside processing revenue could gross \$60,000 per month.

Additional drilling locations in LSD 4 and 9 of Section 2, and LSD's 4, 5 and 12 of Section 11 are currently under review, with 9-2 and 5-11 most likely to be drilled during 1984.

Independent consultants have been retained to prepare an application to the Energy Resources Conservation Board for concurrent production of the solution gas from this pool.

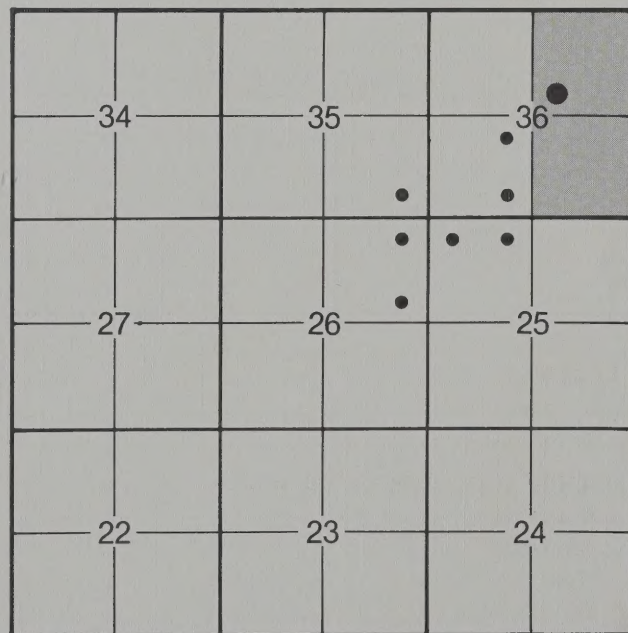


St. Anne Field

ROSEBANK, SASKATCHEWAN

During the summer of 1983, Brana participated to a 3.2% W.I. in the Macedon et al Rosebank 10-36-4-32 W1M well. This Midale oil well flow tested in excess of 200 barrels per day and is being produced at approximately 40 barrels per day.

The working interest partners purchased the southeast quarter of Section 36 at a Saskatchewan Crown Sale and have subsequently acquired freehold interests in the northeast quarter of Section 31-4-31 W1M. The operator has advised that development drilling should proceed during the summer of 1984.



Rosebank Prospect

LEGEND

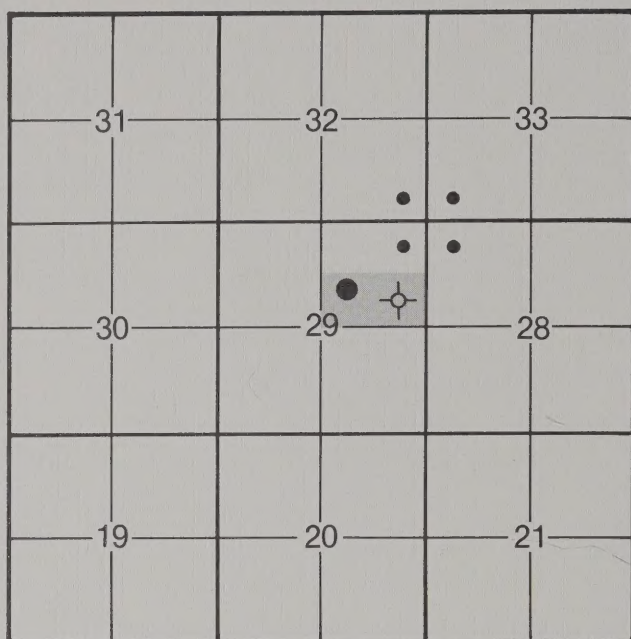
● Oil Well in which Brana has a working interest

☀ Gas Well

● Existing Oil Wells

⊕ Dry Hole

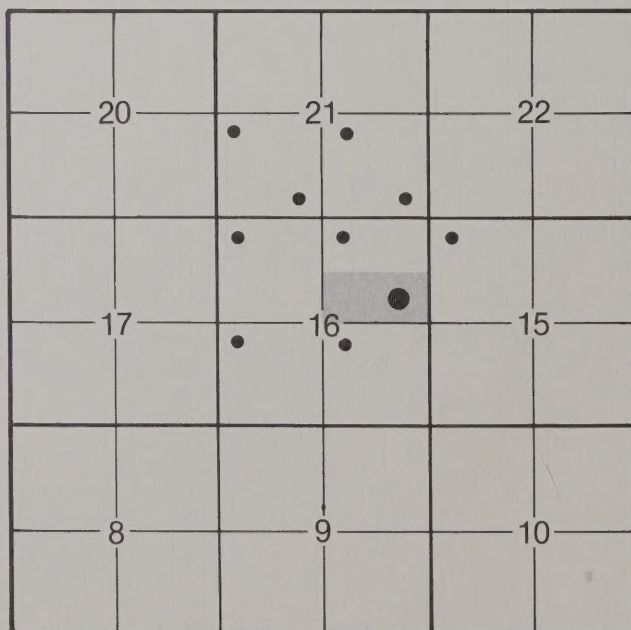
■ Brana Oil & Gas Lands



Browning Prospect

MELROSE, SASKATCHEWAN

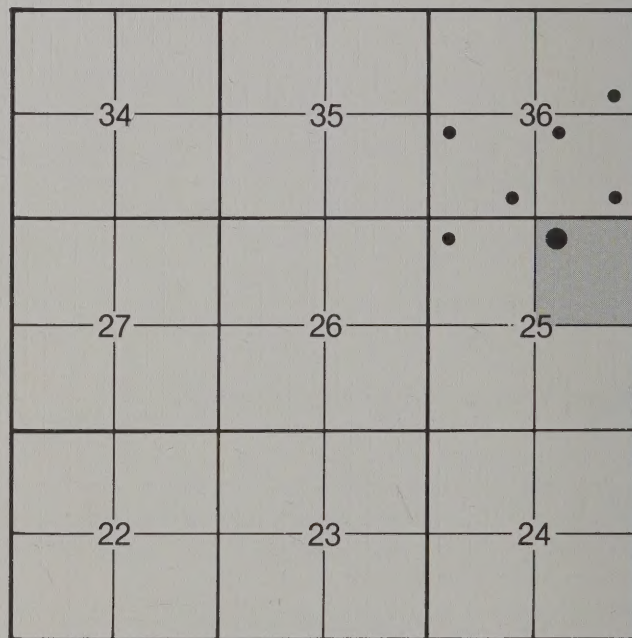
In November 1983, Brana participated to a 4% working interest in a successful well in 15-25-9-8 W2M. Full production is scheduled to begin in January 1984.



Benson West Prospect

BROWNING, SASKATCHEWAN

Brana participated to an 8% working interest in a Fro-bisher oil well in the Browning area late in November 1983. This well commenced production at approximately 53 barrels per day during December 1983. The northwest quarter of 6-10-9 W2M was acquired at the December 6 Crown Sale, with further land acquisition in the area under review.



Melrose Prospect

BENSON WEST, SASKATCHEWAN

Also drilled in November 1983 was a well in 9-16-6-9 W2M, completed as a Midale oil well. Brana's working interest is 8%. Full production from Benson West is scheduled to start in January 1984.

Financial Review

Revenue from oil sales increased by \$48,553 to a 1983 production revenue of \$53,237, providing funds from operations of \$20,907 or \$0.02 per share and net earnings of \$9,607 or \$0.01 per share.

Due to the staggered commencement of production from our Saskatchewan wells and also from the infill drilling at St. Anne, the Company's income statement did not show the effect of full scale operations during 1983. Our forecast of 1984 cash flow is shown in the table below:

NET CASH FLOW FORECAST - 1984

(Annualized Monthly Average)

	Low Estimate(*)	High Estimate(*)
St. Anne	\$ 12,000	\$ 16,000
Morningside	1,000	4,000
Saskatchewan	12,000	15,000
Monthly Cash Flow	\$ 25,000	\$ 35,000
Annualized	\$ 300,000	\$ 420,000

* Note: These cash flows are from existing projects only with no value for new 1984 drilling success.

Operating and administrative expense of only \$57,520 reflect our "bare bones" approach to the management of a new company. The discretionary costs incurred relate primarily to being a public company, and the associated costs of distributing corporate information to our shareholders and the investment community.

At year end, and as a result of our equity issues, working capital improved to \$143,731 from a deficit of \$42,370 as at December 31, 1982. Funds generated from operations in 1984 are expected to approximate \$300,000 to \$400,000, and will further strengthen our working capital position.

The Company presently has no bank debt, but is negotiating for a small line of credit to facilitate lease acquisitions on a revolving basis.

The Company intends to selectively pursue merger or oil and gas property acquisitions to enhance its present financial strength.

LAND HOLDINGS, at December 31, 1983

	Gross Acres	W.I. (%)	Net Acres
ALBERTA			
St. Anne			
Section 2	640	3.0	19.20
Section 11	640	2.5	16.00
Morningside	1920	1.7	32.64
SASKATCHEWAN			
Weyburn	480	8.0	38.40
Browning	240	8.0	19.20
Midale	160	8.0	12.80
Rosebank	320	3.2	10.24
Melrose	160	4.0	6.40
Benson West	80	8.0	6.40
South Weyburn	80	8.0	6.40
Pinto	640	10.0	64.00

PRODUCTION

The Company's total production by quarter for 1983 is illustrated as follows:

	Oil Production (bbls)	
	Alberta	Saskatchewan
First Quarter	33.50	—
Second Quarter	29.85	—
Third Quarter	328.00	18.90
Fourth Quarter	603.80	413.25
Production for Year	995.15	432.15
Average During Year	2.73	1.18

BRANA
Oil & Gas Ltd.

Balance Sheet

As At December 31, 1983

ASSETS

Current Assets

Cash and term deposits
Accounts receivable (Note 2)
Drilling advances

Petroleum Properties (Note 3)

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities
Funds held in trust (Note 4)

SHAREHOLDERS' EQUITY

Share Capital (Note 4)

Retained Earnings (Deficit)

Approved by the Directors,

LUIGI SOPRANI, Director

D. DOUGLAS GILLIES, Director

BRANA
Oil & Gas Ltd.

**Statement of
Income and
Retained
Earnings**

For The Year Ended
December 31, 1983

Revenue

Production
Interest

Expenses

Royalties
Production
Depletion
Legal and audit
Shareholder relations
Interest
Trustee fees
Commissions
Office
Engineering study

Income (Loss) Before Tax Credit

Alberta Royalty Tax Credit

Net Income (Loss)

Retained Earnings (Deficit) - beginning of period

Retained Earnings (Deficit) - end of period

1983

1982

(Note 7)

\$ 157,612

35,552

69,381

262,545

351,020

\$ 613,565

31,895

86,919

118,814

489,737

5,014

494,751

\$ 613,565

\$ 9,964

5,166

—

15,130

106,277

\$ 121,407

57,500

—

57,500

68,500

(4,593)

63,907

\$ 121,407

1983

1982

3 Months
(Note 7)

\$ 52,237

7,990

60,227

10,835

15,589

11,300

6,532

5,886

3,665

1,405

1,250

1,058

—

57,520

2,707

6,900

9,607

(4,593)

\$ 5,014

\$ 3,684

—

3,684

—

1,122

1,100

4,500

—

18

—

—

500

1,500

8,740

(5,056)

463

(4,593)

\$ (4,593)

See accompanying notes

	1983	1982 3 Months (Note 7)
Source of Working Capital		
From operations		
Net income (loss)	\$ 9,607	\$ (4,593)
Item not requiring the use of working capital:		
Depletion	11,300	1,100
	20,907	(3,493)
Share capital issued	421,237	68,500
	442,144	65,007
Use of Working Capital		
Expenditures on petroleum properties	256,043	107,377
Increase (Decrease) in Working Capital	186,401	(42,370)
Working Capital (Deficiency) - beginning of period	(42,370)	—
Working Capital (Deficiency) - end of period	\$ 143,731	\$ (42,370)
Working Capital Represented By:		
Current assets	\$ 262,545	\$ 15,130
Current liabilities	118,814	57,500
	\$ 143,731	\$ (42,370)

See accompanying notes

1. Significant Accounting Policies

Oil and gas operations —

The Company follows a form of full cost accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs and geological and geophysical expenses. In addition, costs of drilling both productive and non-productive wells, and overhead expenses related to exploration activities are capitalized.

The accumulated costs together with estimated future capital costs associated with proven reserves, are depleted by the unit of production method which is based on production and estimated proven reserves of oil and gas as determined by independent consultants. In calculating depletion, natural gas reserves and production are converted to equivalent barrels of oil based upon the relative sales value of each product. Proceeds on disposal of properties are ordinarily deducted from accumulated costs without recognition of gain or loss. Any gain or loss realized on the disposition of a major property would be recognized in the statement of earnings.

Joint venture accounting —

Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

Income taxes —

The interperiod tax allocation basis of accounting is used with respect to all differences between the time when costs and revenues are recognized for income tax purposes and when they are recorded for book purposes.

Government Incentive Grants —

Grants received under the Petroleum Incentives Program are applied against associated drilling costs prior to the calculation of the depletion allowance.

BRANA
Oil & Gas Ltd.

Statement of Changes in Financial Position

For The Year Ended
December 31, 1983

BRANA
Oil & Gas Ltd.

Notes to the Financial Statements

For The Year Ended
December 31, 1983

Notes to the Financial Statements

(continued)

2. Accounts Receivable

Accounts receivable consists of the following:

	1983	1982
Trade receivable — current	\$ 10,657	\$ 3,423
Government drilling incentives	14,407	1,280
Alberta Royalty Tax Credit	7,363	463
Interest income receivable	3,125	—
	<u>\$ 35,552</u>	<u>\$ 5,166</u>

3. Petroleum Properties

	1983			1982
	Assets at Net Cost	Accumulated Depletion	Net Book Value	Net Book Value
CANADA				
Petroleum properties including exploration and development costs	\$ 363,420	\$ 12,400	\$ 351,020	\$ 106,277

4. Share Capital

(a) Authorized

The Company has authorized an unlimited number of common voting, common non-voting, and preferred shares, all without nominal or par value.

(b) Issued

i) Common voting shares

	1983		1982	
	#	\$	#	\$
Private placement	400,000	68,500	400,000	68,500
Public issue, net of issue costs of \$66,844	700,000	283,156		
Earned pursuant to flow through share agreement*	230,135	138,081		
	<u>1,330,135</u>	<u>489,737</u>	<u>400,000</u>	<u>68,500</u>

* Pursuant to the flow through share agreement of October 5, 1983, investors placed \$225,000 in trust with the Company. Expenditures of these funds on drilling activity earn common voting shares of the Company at the rate of 1 share for each \$.60 of expenditure.

At December 31, 1983, 230,135 shares were earned but not yet formally issued. All shares to be issued under the terms of the flow through share agreement are subject to the statutory hold provisions of The Securities Act (Alberta). Trading of these shares is restricted until December 31, 1984.

At December 31, 1983, \$86,919 of the funds held in trust remained unexpended. Under the terms of the agreement these funds will be returned to the investors.

ii) No non-voting common or preferred shares have been issued.

Notes to the Financial Statements

(continued)

(c) Share Purchase Warrants

- i) Class A warrants were issued as part of the Company's public offering of shares. Two warrants are required to purchase one common voting share of the Company at \$.75 per share on or before June 27, 1984. Currently the Treasury is holding 175,000 shares in reserve against the exercise of these warrants.
- ii) Class B warrants were issued to the Agent of the Company as part of the compensation package for handling the public issue. One Class B warrant was required to purchase one common share at \$.75 per share on or before December 27, 1983. The warrants were not exercised and subsequently expired.
- iii) In addition to the above warrants the Directors authorized the issuance of 400,000 share purchase warrants to the original shareholders on a pro rata basis. Each warrant was provided for the purchase of one additional common voting share of the Company at \$.75 per common share on or before December 31, 1983. The warrants were not exercised and subsequently expired.

5. Remuneration of Directors and Senior Officers

No remuneration was paid to the directors and officers of the Company as defined in the Alberta Business Corporations Act.

6. Related Party Transaction

An officer of the Company participated in the flow through share offering of the Company.

7. Incorporation

The Company was incorporated under the laws of the Province of Alberta on September 23, 1982 and commenced operations in October, 1982.

We have examined the balance sheet of Brana Oil & Gas Ltd. as at December 31, 1983 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Calgary, Canada
April 9th, 1984

VENNARD JOHANNESSEN & CO.
Chartered Accountants

BRANA
Oil & Gas Ltd.

Auditors' Report to the Shareholders

For The Year Ended
December 31, 1983

